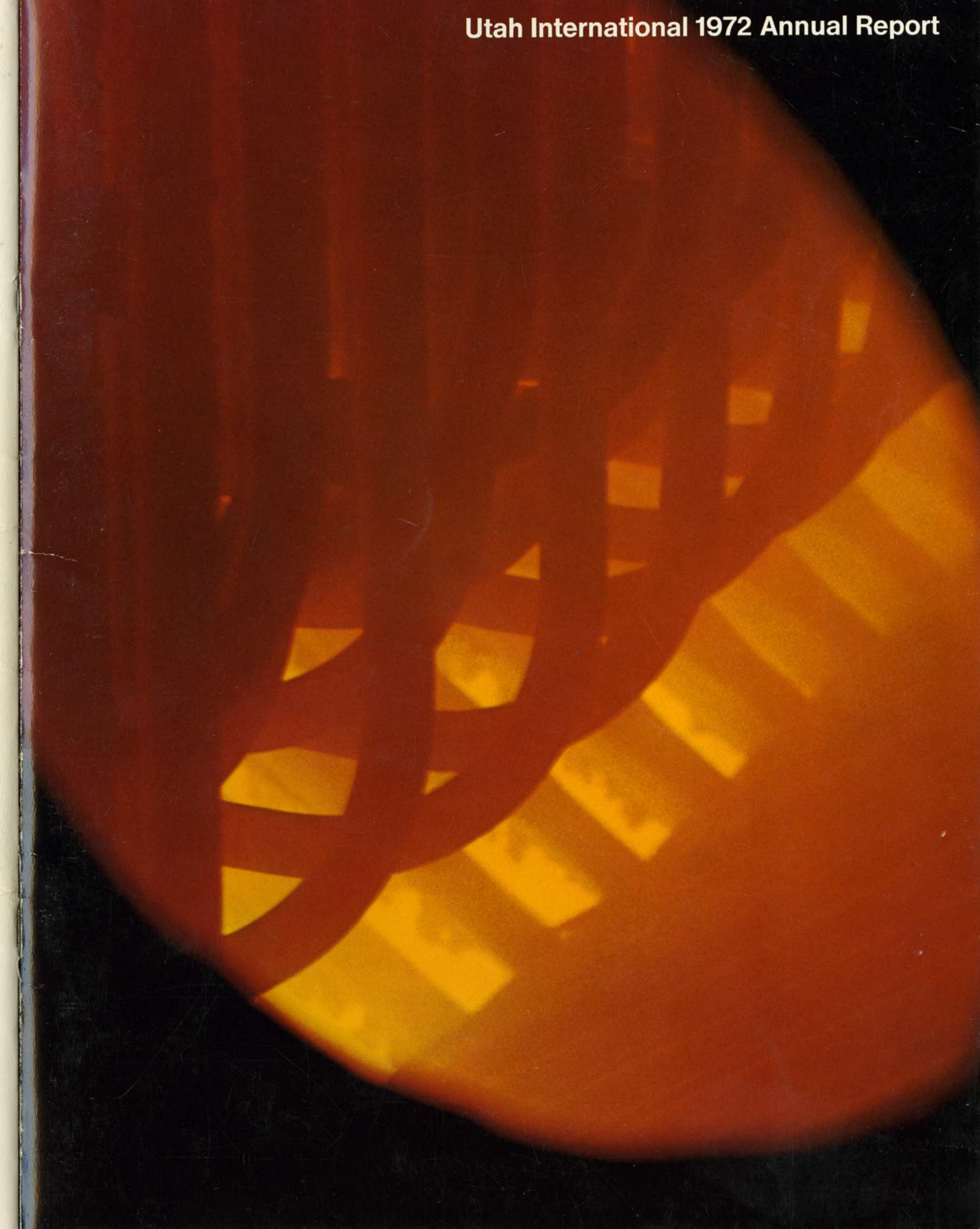
Utah International Inc.

Utah International 1972 Annual Report



Energy . . . released from its dormant state by controlled combustion, and converted to electricity. Like the many products around us upon which we depend, the development of energy for man's use begins with the extraction of natural resources from the earth's crust. Where mineral resources are recovered through excavation, the extractive process is called mining.

Cover: Combustion of Navajo mine coal takes place in the boilers of the Four Corners Power Plant. Boiler tubes in the midst of the inferno contain distilled water which quickly vaporizes. The resulting steam drives gigantic turbine-generator units whose electrical output is distributed throughout the southwestern United States.

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Financial Highlights

Years ended October 31	1972	1971	1970
Net income	$ 39,842,000	$ 35,501,000[1]	$ 30,273,000
Depreciation, depletion and amortization.	$ 21,000,000	$ 8,356,000	$ 6,815,000
Earnings per common share assuming full dilution[2]	$ 2.76	$ 2.45	$ 2.11
Cash dividends per share	$ 0.88	$ 0.75	$ 0.65
Stockholders' equity per share	$ 18.82	$ 16.84	$ 14.72
Stockholders' equity	$270,532,000	$241,224,000	$207,495,000
Common shares outstanding	14,376,244	14,321,517	14,100,015
Number of stockholders	6,311	6,496	6,095

1 Includes extraordinary item of $1,355,000 after tax ($0.09 per share assuming full dilution).

2 Earnings per common share on weighted average shares outstanding were $2.78, $2.50 and $2.27 for 1972, 1971 and 1970, respectively.

To Our Shareholders

In 1972, for the eighth consecutive year, the earnings of Utah International Inc. established a new record, reaching $39,842,000 or $2.76 a share on a fully-diluted basis. This performance represents an increase of 16.7% over the $34,146,000 or $2.36 a share realized during 1971, excluding the extraordinary gain during that year of $1,355,000 resulting from the sale of the company's dredging assets.

Dividends paid in 1972 amounted to 88 cents a share compared with 75 cents paid in the preceding year. This is the 22nd consecutive year in which the dividend has been increased. The amount paid in 1972 was limited by the government's voluntary control program on dividend distributions.

New mining projects were the principal contributors to the earnings increase in 1972. Coking coal became the most important source of earnings, with the Blackwater and Goonyella mines in Queensland in production throughout the year and the nearby Peak Downs mine beginning shipments in July. The Island Copper project in British Columbia commenced shipments of copper concentrates early in 1972, and modification of the grinding circuits in the mill is planned to maximize its output. Problems of pit wall instability at the Shirley Basin mine were brought under control, and operations were profitable at this recently completed project.

Our older profit centers continued to report, in the aggregate, a satisfactory level of earnings. Profits from the Cedar City iron ore operation and the Lucky Mc uranium project were modestly ahead of the prior year. Earnings from the Mount Goldsworthy iron ore operation declined due to lower volume and rising unit costs, while steam coal earnings decreased modestly because of lower deliveries to the electric generating units which were down part of the year to install improved air pollution control equipment. Profits from real estate operations were lower.

Earnings of the company's principal affiliate, Marcona Corporation, declined sharply as expected. Shipping profits, which were unusually high in 1971, declined in 1972 as charter arrangements made in earlier years expired, and prevailing low charter market rates precluded their renewal on such attractive terms. Marcona's iron ore mining operations in Peru, where the industrial climate was more peaceful, and in New Zealand, where production at the iron sands project approached planned operating levels, showed improved profitability. There was little change in the results of the Arizona copper mining operations of the company's second principal affiliate, Pima Mining Company.

With additional coking coal sales contracted in 1972 Utah's backlog of mineral sales rose during the year to $3.135 billion, an increase of $626 million, or 25%.

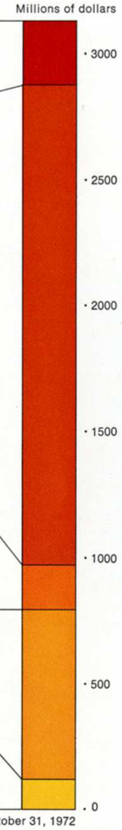
During 1972 the economic climate in both our domestic and foreign markets improved as the year progressed. We expect this economic recovery to continue in 1973. Because of contract provisions and increased demand from our customers, we anticipate increased sales and higher income in the coming year, continuing the strong growth trend that has characterized the company for the past several years. Our optimism about the future is necessarily tempered, however, by the potential threat of well-intended but poorly-conceived legislation, which would result in further deterioration of the investment climate for mining. This problem is particularly acute in the United States which is already less and less able to meet from domestic sources its requirements for minerals. We strongly support the concepts of environmental responsibility, but sound legislation must recognize that most surface mining is in the public interest. The damage to the surface can be corrected at a cost but the benefits of surface mining — reduced hazards to the miners, lower costs to the consumers, greater conservation of scarce mineral resources — cannot be obtained from other forms of mining. We seek the support of all Utah shareholders for soundly-conceived legislation on mining matters.

After 27 years of dedicated and valued service to the company as a Director, Shepard Mitchell has chosen not to stand for re-election in 1973. We extend to him our very best wishes and deep appreciation for his significant contribution to Utah's success.

We again acknowledge with gratitude the successful endeavors of our operating, technical and management personnel in the United States and abroad. Their talents in meeting challenges and fulfilling opportunities have enabled the company to achieve its present success and provide the continuing strength which makes us confident of the future.

E. W. Littlefield, Chairman of the Board   A. M. Wilson, President

Mineral Sales — Contract Backlog



Copper Concentrates Sales contracts with Japanese smelters. Production is from the Island Copper mine in British Columbia.

Coking Coal Short-term and long-term contracts with Japanese and European steel manufacturers. Medium and low volatile coking coals will be delivered from the mines of Utah Development Company in Queensland, Australia (90% owned).

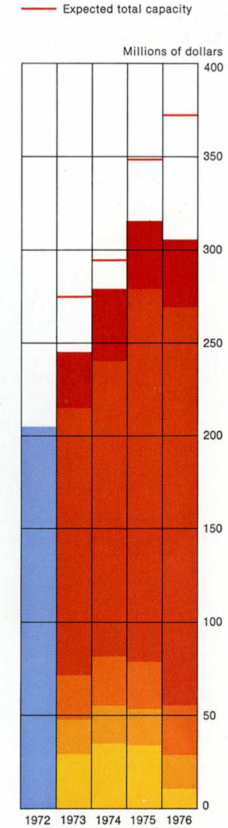
Blackwater (100% owned by Utah Development)
Goonyella (85% owned by Utah Development)
Peak Downs (85% owned by Utah Development)
Saraji (85% owned by Utah Development)

Iron Ore Hematite products from the Mt. Goldsworthy project in Western Australia (33⅓% owned by Utah Development). Magnetite ores from the Iron Springs mine in Utah (100% owned).

Steam Coal A long-term supply agreement to provide the fuel for the Four Corners Power Plant, operated by a group of six utilities serving the energy needs of the southwest United States. For this purpose, subbituminous coal is extracted and delivered from the Navajo mine in New Mexico (100% owned).

Uranium — U_3O_8 Relatively short-term arrangements for deliveries from the Lucky Mc and Shirley Basin mines in Wyoming (both 100% owned).

Mining Gross Revenue



In the past, when considering investment proposals Utah International has placed considerable emphasis on the desirability of obtaining long-term sales contracts for the commodities to be produced at new mining operations. As a result of this policy, Utah and its subsidiaries have amassed a backlog of undelivered sales commitments totaling $3.135 billion as of October 31, 1972. The components of this backlog arranged by commodity and project are reflected on the left side of the accompanying graph.

The company's sales commitments will be satisfied from projects which are currently in operation or in various stages of development. Most long-term contracts stipulate that deliveries in any year may vary within prescribed limits at the option of the buyer. Over the life of the contract, however, it is expected that full contract amounts as indicated in the backlog will be delivered. The graph to the right has been prepared using the assumption that the average contract amounts will be delivered each year, and it is designed to indicate the importance of sales from the backlog relative to total projected mining revenues for the next four years. More than 80% of the sales in the backlog contain price escalation provisions.

Excluded from backlog considerations are the contracted sales of Marcona Corporation and Pima Mining Company, both of which provide important profit contributions to Utah. Since its ownership interest in both of these companies is less than 50%, Utah does not record any portion of their revenues, but only its share of the profits.

1972 Operations

Since its incorporation at the turn of the century, the business pursuits of Utah International Inc. have changed dramatically. In its early years, Utah was primarily a construction company performing heavy earthworks projects in the western United States. Now an international mining company, Utah also maintains interests in ocean shipping and land development. Construction activities have been limited since the sale of the company's heavy construction and dredging assets in 1969 and 1971. Yet the transition has not been sudden, nor has it required a great change in character. For today, as in the past, Utah advances its reputation for reliability among those who consume its products or utilize its services. Similarly, the company continues to recognize its responsibilities to employees and to communities in which it operates.

Contributing to the shift toward the present heavy commitment to mining was the desire to create a more reliable earnings base upon which Utah could begin to build the framework for future growth. To enhance the predictability of the company's income flow, long-term sales contracts for the minerals to be produced were a prerequisite for new mining ventures. In most cases, these sales contracts contain provisions for escalation of sales prices as costs are increased due to economic forces beyond the company's control. The soundness of the decisions to place increasing emphasis upon mining activities and to approach mining projects in this manner is evidenced by Utah's earnings pattern, which has replaced the cyclical pattern of earlier years with a 20-year history of growth at an average rate of 14% per year. Furthermore, with a far more substantial equity base and with sustainable annual profits Utah today possesses the financial strength for continued expansion into major mine investment programs as opportunities are developed.

Utah's current mining operations, including those of affiliated companies, involve extraction and varying degrees of processing of metallurgical and steam coals, uranium, iron ore, copper and the by-product minerals molybdenum, rhenium and gold. These mining ventures are located in Australia, Canada, New Zealand, Peru and the United States, while the company's land and construction programs are largely conducted in the western United States.

On the following pages, the diverse product interests of Utah International are discussed in detail.

Coal

In terms of contribution to current earnings as well as to potential earnings growth for the next several years, the production of coal is the most important of Utah's business enterprises. Of present coal mining operations, steam coal has the longer history, beginning with the first deliveries from the Navajo mine in 1963. More recently, coking coal reserves in the Bowen Basin of Queensland, Australia, have been developed.

Steam Coal

The Navajo mine in northwestern New Mexico, which is Utah's only operating steam coal venture, supplies its entire output to satisfy the fuel requirement of the nearby Four Corners Power Plant. This plant, owned by a group of six utility companies, generates electricity to satisfy the expanded energy needs of New Mexico, Texas, Arizona and California. Under 35-year contracts containing cost escalation protection, Utah is providing coal to the five electricity-generating units now in operation, which have a combined capacity of 2085 megawatts.

Shipments of coal from the Navajo mine were down from 1971 levels during the first six months of the 1972 fiscal year due to the installation and start-up of air pollution control equipment on the three original units of the Four Corners Power Plant. By the third quarter, operations had resumed sufficiently for shipments to exceed those of the first two quarters. For the

Steam coal has long played an essential role in satisfying the electrical energy needs of the United States. Growing demands for all forms of energy, coupled with diminishing supplies of other domestic fuels, should bring coal into a position of even greater prominence in the years ahead.

Layers of crushed coal are deposited in long blending piles by rail-mounted stacking units at the Navajo mine. At finished height, each pile will contain 30,000 tons of uniform quality coal, ready for delivery over a network of conveyors to the Four Corners Power Plant.

year, shipments were 6.6 million tons compared to 6.8 million tons in fiscal 1971. After-tax earnings realized from these revenues were slightly depressed, reflecting the decline in shipments. For the next several years coal delivery rates at Navajo will depend upon the operating reliability of this new air pollution equipment and upon the timing and nature of a program which is expected to modify the pollution control systems of the two newer generating units.

The Navajo mine is now the largest coal mine in the United States, with an annual production capability of some eight million tons. Even at this rate, sales through the life of the power plant will require only one third of the approximately 1.1 billion tons of subbituminous coal contained in the Navajo reserves. Negotiations during the past year with subsidiaries of Pacific Lighting Corporation and Texas Eastern Transmission Corporation have established the terms under which nine million tons of coal from the remaining reserves would be sold to these companies each year to supply a plant which would manufacture synthetic gas. However, construction of this gasification plant is subject to certain approvals and the satisfaction of other conditions. Concurrently Utah has agreed to set aside temporarily the balance of its Navajo reserves for several additional gasification plants which are also under consideration by these same companies.

On June 1, 1972, Western Coal Company contracted with Utah to mine coal reserves owned by Western Coal Company and located eight miles north of the Navajo mine. Staffed and operated by the Navajo mine, this operation will initially mine and deliver steam coal at a rate of approximately 1.3 million tons per year for the nearby San Juan Power Plant now under construction by Public Service Company of New Mexico and Tucson Gas & Electric Company. Shipments are scheduled to commence in the first half of 1973. The contract, terminable in six years at the option of either Utah or Western Coal Company, will otherwise continue until all of Western Coal Company's coal reserves are mined.

Reserves of steam coal held by Utah near Craig, Colorado, are the subject of discussions with a group of utilities wishing to build a power plant nearby. Negotiations now in advanced stages will if successfully concluded require deliveries by 1978 at the earliest.

Coking Coal

Sharp increases in coking coal deliveries provided the main thrust of new earnings strength in 1972 as Goonyella and Peak Downs, two new mines, joined forces with the Blackwater mine to boost total shipments from Utah operations to 7.26 million tons in 1972, 140% above 1971 levels. These three coking coal mines in the vast Bowen Basin of Central Queensland, Australia, have become and should continue to be important and reliable supply sources for Japanese and European steel mills which require this product as an ingredient of the charge fed into their blast furnaces. All of the mines are modern open-cut operations with efficient coal preparation facilities to improve the quality of the delivered product. Located as they are in relatively unpopulated areas, these mines have required substantial investment in infrastructure, consisting of roads, townships, railroads, water, power and communications services. By financing these facilities and providing substantial rail freight revenues to the State of Queensland, Utah plays an important and constructive role in the economic development of the region. Ownership of Utah's coking coal interests and its other significant Australian activities is maintained through Utah Development Company, a 90% owned subsidiary of Utah International. Utah Mining Australia Limited, a company owned by some 12,000 Australian investors, owns the other portion of Utah Development Company.

The Blackwater mine, wholly owned by Utah Development, was the first of Utah's Australian coal operations, with exports beginning in 1968. Leases from the Queensland government allow 100 million tons of coal to be exported from Blackwater. The production capacity of this mine is now in excess of three million tons per year; as a result of an expansion program now

Manufacturing of steel is a spectacular process which begins in the blast furnace where coking coal performs the critical role of reducing the iron ore to a metallic state.

Processed coking coal is conveyed from the new Peak Downs preparation plant. At full capacity this plant will transform raw coal into five million tons of product coal each year.

underway, full production capacity of this operation should reach four million tons per year by 1974. The year's shipments of 3,010,000 tons were slightly higher than those of last year, reflecting a negotiated increase in contract amounts effective in January and an improved industrial relations climate at the mine during the year.

Goonyella and Peak Downs have been developed under an agreement with the State of Queensland in which Utah Development and Mitsubishi Development Pty. Ltd. hold respective ownership interests of 85% and 15%. This agreement permits four mining leases embracing up to 175 square miles and allows the companies to export up to 300 million tons of coal from these leases provided that the amounts mined do not exceed a specified proportion of the total reserves discovered in the area. Based on the findings to date, this latter provision is not expected to limit the amounts which may be exported.

In 1969 long-term contracts with price escalation protection were executed with Japanese buyers for the delivery of Goonyella and Peak Downs coal totaling 85 million tons. Deliveries under these contracts will increase in the early years until a level of seven million tons is reached in 1974 and will remain at that level plus or minus five percent at the buyers' options until the contracts expire in 1984. Over $200 million will be expended to bring these mines into production with an estimated capacity of nine million tons annually. Over one half of the expenditures have been devoted to the mine-to-port railroad, the new port of Hay Point and the town of Moranbah, all of which were built at a scale to accommodate both mines.

Situated 150 miles north of Blackwater, the new Goonyella mine, which shipped nominal quantities at the end of 1971, recorded sales of 3,750,000 tons in 1972. This was a most successful performance, as start-up operations went smoothly and allowed Goonyella to fulfill its contractual commitments to a group of 13 Japanese buyers while delivering under short-term contracts 1,250,000 tons to steel companies in Australia, Italy, Holland, Spain, France, Belgium and Greece.

The Peak Downs coking coal mine, which is located 35 miles south of Goonyella, began shipments on schedule in July. Shipments for 1972 were 510,000 tons, 302,000 tons of which were delivered to Japan with the balance going to European customers. The mine is operating on a satisfactory basis and will make a significant contribution to earnings in 1973 when it will be operating throughout the year.

In 1972 major additional long-term sales agreements were entered into with Japanese and European buyers for additional coking coal deliveries starting in 1974. The term of the contracts is ten years and the Japanese portion of 26 million tons is firm for the entire period and sold on an f.o.b. basis. The European contracts are on a delivered basis and are firm as to price and quantities in the first six years. Quantities for the last few years are subject to agreement on pricing for this period. Therefore, including optional tonnages, the total deliveries under these contracts with Japanese and European customers could vary from a minimum of 42 million tons to a maximum of 58 million tons.

To meet the additional quantities required, Peak Downs will furnish about 1.5 million tons from its five million ton annual capacity. The remaining requirements will ultimately reach 4.5 million tons annually by 1976 and will be provided by a new mine to be built at Saraji, 15 miles south of Peak Downs. This new mine and supporting facilities will require an estimated investment of $170 million, of which Utah Development Company will furnish $120 million. The Saraji facilities, where practical, are being designed to serve also a new potential mine location at Norwich Park, some 30 miles south of the Saraji reserves, following a plan similar to that used for Goonyella and Peak Downs. The port and water supply facilities will be constructed with capacity adequate for dual service, and a new town will be so located that it can accommodate personnel from both mines. Development of Norwich Park has not been approved but is still under preliminary study. Further work is required to determine the feasibility of the new mine and to develop a market for its output.

As its uses become more widely accepted and as technology improves, the value of nuclear power is enhanced as a potential source to fulfill much of the world's emerging energy needs. Uranium fuels, which can be transported great distances at relatively low cost, offer new opportunities to those areas of the world not endowed with energy-laden resources.

At Shirley Basin, uranium-bearing pods of ore are defined, isolated and mined with a backhoe. The ore is then transported by truck to the mill and converted to uranium concentrates.

Uranium

Utah owns and operates two uranium mines and related processing facilities in Wyoming. Uranium oxide, U_3O_8, produced from these mines is sold to foreign and domestic companies for eventual use as a fuel for nuclear power plants.

The combined annual output capacity of both Wyoming operations is approximately 4.3 million pounds of U_3O_8. Existing contract commitments require Utah to deliver 12.9 million pounds of U_3O_8 during the three-year period through 1975, which is essentially the total output of the two operations during that period. Mounting evidence indicates that uranium will play an increasing role in providing fuel to meet energy needs of the future. While the timing of the expected rise in the demand for nuclear fuels is uncertain, Utah is confident that with efficient operations, available reserves and uncommitted production capacity in the latter half of the 1970's, it is well placed to supply this market as it develops.

The Lucky Mc uranium mine and mill, which have been in continuous operation since 1958, delivered all output to the Atomic Energy Commission until 1967 to satisfy contract obligations. Sales then began to other governments and private and public companies and gained in importance as deliveries to the AEC were completed in 1971. In 1972 Lucky Mc produced and shipped 2.3 million pounds of U_3O_8, somewhat below the 1971 performance. However, some additional shipments were made possible by purchasing concentrates and through arrangements with others to mill Utah's ore. Coupled with improved ore grades, this enabled profits from Lucky Mc to reflect some improvement in 1972.

Shirley Basin originated as an underground mine in 1960 and was later converted to a solution mining operation, utilizing a technique whereby minerals in place are dissolved by an acid solution and then pumped to the surface and recovered. In 1970 the solution mining operation was discontinued and an open pit operation was commenced to yield considerably greater output. At the same time a new mill was erected near the mine and began processing ore early in the 1971 fiscal year. In its first year of operation the Shirley Basin mine encountered pit wall instability problems which precluded satisfactory deliveries to the mill in terms of both quantity and grade. A program of pit wall dewatering and some increased stripping have brought these problems under good control. The mine and mill are now operating at design capacity, and the project has been profitable since March 1972. During the year deliveries of U_3O_8 produced from Shirley Basin reached 1.9 million pounds, greatly exceeding the shipment levels and profit performance of the prior year.

Copper

In 1972 ample supplies of copper were available to consumers as new mines came into production and inventories in the hands of users were at relatively high levels. Average copper prices were below those of the preceding year. Copper consumption increased as the year progressed and this trend should continue in 1973. This could lend strength to the pricing structure for copper in the year ahead even though ample copper production capacity worldwide is available to meet expected consumer demands for the next several years.

Culminating two and one-half years of planning and development, Utah's new Island Copper mine shipped its first concentrates in December 1971. Located at the north end of Vancouver Island, Island Copper represents a diversification in the minerals mined by Utah for its own account, in that copper and significant gold values are contained in the concentrates and molybdenum and rhenium are produced as by-products.

Start-up operations encountered some difficulties and initial output and profitability have been below expectations. The primary problem area has been in the autogenous grinding mills where unexpected ore characteristics have resulted in inadequate throughput. Partial charging of these mills with steel grinding balls has resulted in improved production, but it is apparent that design capacity cannot be reached with this arrangement.

Shaped into tools and weapons, copper was one of the first metals to be used by man in his efforts to achieve better living standards. Today, due to electrical conductivity properties and a high resistance to corrosion, copper and its alloys continue to perform an integral role in man's quest for advancement.

In flotation cells at the Island Copper concentrator, reagent-coated copper and molybdenum minerals are recovered when contacted by air bubbles.

Therefore, a program to construct regrind ball mills is now underway, with attainment of design production levels of 33,000 tons of ore daily expected by the end of 1973. Japanese smelters have contracted to buy all the copper concentrates produced during the first five years and 63% during the next five years at prices based on the London Metal Exchange quotations at the time of shipment. Deliveries in 1972 contained approximately 65 million pounds of copper and significant amounts of gold.

Under a variety of sales arrangements, 250 tons of molybdenum concentrates, produced as a by-product of the Island Copper concentrator, were sold during 1972. These concentrates contain the metal rhenium, which has commercial uses particularly in the production of low-lead gasoline. In some cases the molybdenum buyer has purchased the contained rhenium, while in others this product is to be returned on a toll basis, at which time Utah is to seek sales opportunities.

The nearby town of Port Hardy has shown continued growth and prosperity as a result of the new mine-mill complex at Island Copper. New housing, schools, roads, sewerage treatment facilities and underground utilities have been built either by Utah or the town of Port Hardy and the government of British Columbia.

Pima Mining Company has operated an open pit copper mine and concentrator 25 miles south of Tucson, Arizona, since 1956. Expansion of Pima's facilities was completed in January, raising the capacity of that operation from 40,000 to 53,500 tons of ore per day. This expansion will allow production of copper contained in concentrates to increase 25% to 160 million pounds per year. After less than a full year of operating the new facilities, Pima's sales for the year were 157 million pounds, up from 125 million pounds in 1971. However, lower copper prices offset the effect of increased shipments, and Utah's interest in the earnings of Pima was relatively unchanged.

Pima depends upon custom smelters owned and operated by others to convert its concentrates to metallic copper. To the extent that these smelters might have to be modified to meet air pollution standards, Pima would be affected either through increased smelting charges or by a requirement to arrange alternative smelter capacity. With a full awareness of this potential problem, Pima continues to study various means of assuring that its output will be readily and economically marketable over the life of the mine.

Iron Ore

Directly and through its ownership in Marcona Corporation, Utah holds iron ore interests in Peru, New Zealand, Australia and the state of Utah. Shipments of iron ore and beneficiated iron ore products, including pellets and pellet feed, are sold to buyers representing the free-world steelmaking industry. Iron ore markets showed general weakness throughout most of the year because of the prevailing levels of steel production and disruptions caused by cutbacks by Japanese buyers as they sought to bring their purchases into better alignment with their reduced needs. Nevertheless, the iron ore operations in which Utah has an interest produced on the whole a slightly improved profit over last year. This resulted when Marcona's mining operations in Peru resumed profitability for the year, as higher margin pellets comprised a greater share of its sales and the labor disturbances of 1971 were not repeated.

Utah's oldest mine is the Iron Springs open pit mine located near Cedar City, Utah. Over the years this mine, despite its limited size, has been a consistent contributor to profits. Virtually all production from Iron Springs is delivered to U.S. Steel Corporation's Geneva Works near Provo, Utah, under a contract scheduled to expire in 1976. Shipments from Iron Springs were 522,000 tons for the year, virtually equal to the 1971 performance. Near Iron Springs, Utah performs stripping and mining operations under contract on properties controlled by CF&I Steel Corporation.

The Mount Goldsworthy mine in Western Australia, one third of which is owned by Utah Development Company, shipped 6,012,000 tons of iron ore in fiscal 1972. Shipments fell short of expectations and were below the 6,549,000 tons shipped last year because of the reduced requirements of

The structures in which we live and work, our automobiles and transportation networks, the productive machinery of our nations . . . all require vast quantities of steel. To meet these demands, a diverse selection of iron ore products, ranging from direct shipping ores to highly beneficiated pellets, is marshalled from the world's many and varied sources of supply.

Spiral gravity separators effect the final process to concentrate the iron-bearing beach sands of the Waipipi project.

Japanese buyers. A Japanese Seamen's Union strike at midyear further aggravated the low ore delivery rates to steel mills from all ore suppliers.

Since long-term iron ore sales contracts do not generally provide for cost escalation, Mount Goldsworthy and similar projects which are developed to satisfy long-term delivery commitments are undertaken with full recognition that profitability in later years of the contract may be reduced by the effects of inflation, currency revaluation and increased mining costs as the pits are advanced. In the past, to forestall the effect of these factors, Mount Goldsworthy has increased its long-term sales commitments to provide an expanded level of operations. Such an expansion is now underway to develop the nearby Sunrise Hill and Shay Gap deposits. The additional facilities will include a new mine and township at Shay Gap and 44 miles of railroad spur line from the present operating site. Completion is expected in April 1973, at which time the base annual production capacity of these mines will total eight million tons. With some continued weakness in iron ore markets, it is expected that contracted sales may not require full production at this increased capacity before 1974.

Insufficient demand from Japanese and other steel producers has resulted in surplus iron ore production capacity in Australia and elsewhere. When the growth of worldwide steel production causes iron ore requirements to exceed existing supply capabilities, new mines will be developed. Utah has interests in two Western Australia properties with potential for such development. The first and most advanced is designated as Mining Area C, in which Utah Development Company has a one-third interest in reserves containing an estimated 500 million tons of high grade ore. Another is known as McCamey's Monster, where Utah Development's interest is about 11%, and drilling results indicate substantial tonnages of good ore. Either project will require sizable capital for development, and therefore each must be a large-scale operation with correspondingly large ore sales contracts.

Utah International and Cyprus Mines Corporation each own 46% of the equity interest and 50% of the voting stock of Marcona Corporation whose assets include iron ore mines and extensive ore handling and beneficiation facilities in Peru. Operations began there in 1953 on a relatively small scale. Subsequently, through a series of expansion programs, the Marcona complex has developed into a sophisticated operation capable of producing up to ten and one-half million tons of iron ore products annually. The most recent expansion at Marcona, which was completed this year, raised pellet capacity by 700,000 tons to four million tons per year and enlarged Marcona's capacity to produce other beneficiated iron ore products as well. Shipments of 9,114,000 tons from Peru were up slightly from last year despite weaker iron ore markets and the Japanese Seamen's Union strike. Consequently, higher prices, an improved product mix and relative labor stability combined with increased deliveries to better the performance of the previous year. On October 31, 1972, Marcona held contracts requiring future deliveries of 44 million tons of iron ore products from the Peruvian operations.

Buoyed by the belief that air pollution requirements of major steel-producing countries will result in a shift toward better quality iron ore products, Marcona has been considering a further increase in its pelletizing capacity. During the past year discussions have been held with Peruvian authorities and Japanese equipment suppliers to consider a program to nearly double Marcona's present annual pellet production. Under these arrangements, financing would be provided by the buyers and equipment suppliers, and some equity ownership of the mining operations by the Peruvian government is probable. An adverse decision in May by the Peruvian Supreme Court in a case involving depletion deductions claimed by Marcona is involved in the negotiations, and the applicability of existing tax indemnity provisions must also be resolved.

In 1970 Marcona initiated the Waipipi project to produce up to two million tons of iron concentrates annually from vast iron sands deposits on the west coast of New Zealand. At this project, 75% of which is held by Marcona, hydraulic dredging and magnetic and gravity separation units are used to

As traditional mineral supplies are depleted, the search for new resources must center increasingly on locations which are more distant from the industrial areas of the world. To bridge the widening gap between points of supply and existing processing facilities, fleets of specialized ships and innovative handling techniques minimize the cost impact of these greater transportation requirements.

Marcona's 130,000 deadweight ton *San Juan Vanguard* loads iron ore from Peruvian mines for delivery to the Far East. Dual-product shipping capabilities enable this vessel to seek an oil cargo for its backhaul voyage.

mine and beneficiate the sands. Utilizing the Marconaflo technique, the concentrates are then slurried and pumped through pipelines to a ship moored offshore. The ships used have Marconaflo drainage equipment for removal of most of the water from the slurry. Currently, all Waipipi production goes to Japan under a ten-year contract for annual deliveries of one million tons. In 1972, the first full year of operations, shipments totaled 930,400 tons and the project operated profitably.

Ocean Shipping

Utah's participation in the ocean shipping business is through its equity interest in Marcona Corporation. That company's introduction to ocean shipping came in 1953 when it began to charter vessels to move its iron ore products from Peru to destinations around the world. Shortly thereafter, Marcona instituted a vessel ownership program which over the years has led that company to a position of control over a sizable fleet.

Flexibility has been of prime importance in designing the fleet of Marcona-owned vessels. None of the ten ore carriers is a single purpose vessel, but each ship is capable of carrying either ore and oil or ore in slurry form and oil. This dual capability has served Marcona profitably over the years by allowing the ships to take advantage of backhaul opportunities that would not be available to ordinary ore carriers. In late 1970, sharp upward movements in oil tanker charter rates created a unique opportunity for Marcona. Combination carriers were committed solely to the oil trade at attractive rates and dry cargo replacement tonnage at lower rates was located to satisfy Marcona's own iron ore transportation requirements. Under these arrangements, profits from shipping operations in the 1971 fiscal year far exceeded those that might be realized under normal circumstances. During 1972 most of these arrangements expired and tanker and dry cargo charter rates came into closer alignment, causing Marcona's shipping earnings to return to more typical levels for the year.

Marcona has undertaken a jumboizing program which will lengthen three of its vessels and thereby raise the capacity of the fleet by 107,000 deadweight tons. The first ship to be jumboized was the *San Juan Exporter* and modification of this vessel also included the installation of Marconaflo equipment. Recently completed, it carried as its first cargo the initial deliveries of high grade iron ore feed for a new Japanese pellet plant which is equipped with Marconaflo discharge facilities.

Depending upon Marcona's needs at a given time, other ships may be utilized to complement the operations of its own fleet. At year end, 29 additional vessels were operating under various hire arrangements with Marcona. Reflecting the decline in oil trade activity, the traffic of all Marcona shipping was reduced to 127.7 billion ton miles in 1972 from 135.9 billion ton miles a year earlier.

While Utah does not currently own any vessels, the rising importance of sales of Australian coal to Europe and the significance of transportation costs in the pricing structure for the delivered product have led the company to assume responsibility for these shipping arrangements. As a consequence, the company has entered into a number of agreements to meet these transportation requirements.

Exploration

In order for a mining company to sustain growth, a selection of potential investment opportunities must be under consideration for future development at such time as human and financial resources of the enterprise can be made available. It is the task of an imaginative and vigorous exploration program to provide such opportunities. With these policies in mind, Utah strives to insure that its program is directed toward geographic locations which present a reasonable investment climate and minerals which afford satisfactory market potential.

Although Utah's exploration activities have covered many areas of interest throughout the world, the major portion of recent expenditures has

Replenishment of diminishing mineral reserves is the continuing objective of exploration programs funded by resource-intensive companies around the world. Teams of geologists and mining engineers examine and test the earth's crust to locate ore deposits which can supply raw materials for the future.

A model constructed from an examination of samples taken during a drilling program affords the geologist greater visualization of the indicated ore body.

been concentrated in Australia, Canada, the western United States and the Solomon Islands. General reconnaissance and drilling as well as geochemical and geophysical programs are currently underway in these areas, with the greatest emphasis on minerals now produced by Utah. Through Marcona, potential project opportunities are under consideration in Brazil, Greenland, Alaska and India. Other countries known to have mineral resources are being examined to determine whether the political and investment climate justifies exploration expenditures.

Construction

With the disposition of heavy construction and dredging assets over the past several years, Utah's only remaining interest in construction activities is represented by participation as a limited partner with Haas & Haynie Corporation. This partnership continues to complete successfully commercial and light industrial construction projects, chiefly in the western United States. Utah has also retained a staff of construction personnel to provide the expertise required for the planning and supervision of construction programs at new or expanding mining operations.

Land Development

With a shortage of developed land in a readily marketable stage, 1972 sales and earnings from land development operations were below the performance of the previous year. However, earnings generated by the sale and operation of investment properties together with those realized on collections under deferred sales arrangements of prior years did allow a profit to be recorded by this division of the company's operations.

Utah holds interests in a number of land projects, most of which are located in California. Only a few of these represent sizable investment commitments or are noteworthy because of their 1972 profit performance. The Moraga property, a residential development located east of the San Francisco Bay Area, provided the greatest profit contribution as further payments were received under earlier agreements which provide for the sale of all remaining land. Profits will continue in future years as additional installments are received.

Development of the company's 908 acres of unimproved landfill property at Bay Farm Island in Alameda, California, has progressed toward implementation through the establishment of a partnership agreement with Doric Development, Inc., an experienced San Francisco area builder of quality multi-unit housing. A planned unit development comprised of residential, commercial and light industrial areas has been designed for the property under the name of Harbor Bay Isle. The residential section is to consist of some 9000 units, most of which will be condominium townhouses. Approximately two thirds of the entire property will remain as landscaped open space, including the three and one-half mile shoreline perimeter. A complete environmental impact report documenting its ecological considerations and substantial economic benefits to the City of Alameda has been submitted to the City, whose approval of an application by the partnership to rezone the project is necessary before construction can begin. It is hoped that this approval will be forthcoming in the near future.

The company's investment in improved real estate declined slightly during the year with the sales of an improved parcel of land in Phoenix, Arizona, and a small apartment complex in Alameda which was converted to condominium units. The South Shore Shopping Center in Alameda continued to record profits, and the value of this investment was enhanced this year by a program of general site improvements and the addition of a new department store.

Future profits from land operations are linked to the company's ability to bring existing properties to a marketable stage and to its success in seeking and finalizing new ventures. This latter task is becoming increasingly difficult, as land projects are now subjected to a growing number of delays. New commissions and agencies with overlapping jurisdictions and divergent objectives contribute to the problem as does the uncertainty surrounding building codes and environmental impact standards. Unfortunately, because

Changing lifestyles and care for the environment must be reflected in new residential developments. Clustering of structures can provide pleasing patterns while allowing greater amounts of landscaped open space for leisure-time enjoyment.

A scale model now on display shows the proposed development of Harbor Bay Isle.

of the high carrying costs which characterize land development projects, delays can result in sharply higher prices for the final products.

Environmental

All of Utah's mining operations are conducted by surface methods — strip mining, in the case of coal, and open pit mining for the extraction of uranium, copper and iron ores. The use of surface mining methods is dictated by the relatively shallow depths at which these minerals are found. Eventually, the company may resort to underground methods in order to gain access to mineral deposits located at greater depths.

As compared with underground mining, the use of surface mining techniques offers substantial advantages and benefits that need to be understood by a wider audience. These are primarily three:

• *Safety.* Surface mines maintain a far better safety record than underground mines. No mining operation is free from industrial accidents, but over the years the incidence of fatalities in underground mines has been approximately eight times greater than it has in surface mining operations.

• *Conservation.* Natural resources are better conserved in surface mining operations, particularly in the mining of coal, where virtually 100% of the mineral deposit can be recovered. A large proportion of the total coal in underground mines must be left in place as pillars for roof support and thus can never be extracted and used. Surface mining often makes it possible to mine ore of a lower grade than could be extracted utilizing underground mining techniques, thus making available minerals that otherwise could not be recovered.

• *Economy.* Surface mining is used only when it recovers minerals at lower cost than other mining methods, and the savings are reflected in the pricing of minerals to consumers.

Surface mining by its very nature disturbs land surfaces in the areas of operations. Utah assigns a high priority to the task of assuring that the effect upon the environmental conditions pre-existing its operations is minimized, and that upon completion of mining, those areas disturbed by its operations are restored to the maximum extent practicable.

No two of the company's mining operations are exactly alike, and each presents environmental conditions requiring separate analysis. Operating personnel and a fully staffed department of environmental quality collaborate in developing solutions tailored to the requirements of each project.

Surface mining operations and the movement and treatment of the minerals produced involve relatively minimal and highly localized emissions of air pollutants, and the effects on the regional ambient air quality are negligible and scarcely measurable outside the project boundaries. Drainage can be controlled to prevent pollution of streams and underground water resources. Of greater importance than either of these considerations is the reclamation of land surfaces where mining has been completed, and it is to these areas that Utah has primarily devoted its attention.

Under reclamation programs at all of Utah's mines in the United States and Canada, to the degree practicable mining operations will be followed by measures designed to establish surface contours in affected areas that will be compatible with the surrounding topography, and to propagate vegetation. At the Navajo mine in New Mexico the reclamation program includes solid waste disposal, in the form of burial of ash from the nearby thermal generating plant, as an important added function. Reclamation of Utah's Australian coal mines was anticipated in the agreements with the State of Queensland.

The proposed project for gasification of uncommitted Navajo coal reserves has important advantages from an environmental standpoint. Gasification results from a chemical process which produces a gas that is the equivalent in heat energy of natural gas and is equally clean and non-polluting.

Utah's objective is and will continue to be to maximize its production of essential minerals at competitive cost levels, and to continue all physical efforts consistent with available technology to minimize the effects of its operations upon the environment.

Environmental awareness must assume a vital role in the plans for any project which changes its surroundings. The challenge facing business today is to formulate and implement enlightened environmental standards which will not stifle the flow of those material goods essential to development and prosperity.

Seeding and the natural re-establishment of native vegetation foster growth on reclaimed waste areas at Shirley Basin. Studies of soil preparation techniques and growth patterns, which commenced in 1970, have now been expanded to include an extensive revegetation program for the entire mine area.

Capital expenditures during the past five years for the development of major new mining projects, the expansion of nearly all existing mines and for normal replacements have exceeded $300 million. Financing such a program has required substantial increases in stockholders' equity accounts and in long-term liabilities. Equity capital has been provided by retained earnings and the issuance and later conversion of subordinated debentures, and the company's net worth has grown from $96 million at the beginning of 1968 to $271 million at the close of 1972. Utah has also employed leverage through a borrowing program which has increased long-term debt from $53 million to $219 million during the same period. Additional fund requirements have been provided from other internal sources, particularly non-cash charges and deferred taxes. In 1972 increases in the equity and long-term debt accounts were $29 million and $12 million respectively.

Capital expenditures were $60 million in 1972 and are scheduled at $76 million in 1973 and $56 million in 1974. While these figures include amounts for completion of current expansion programs and for normal replacements and additions, most of the budgeted expenditures are for the new Saraji coking coal project.

New Financing Program During 1972, financing was arranged for the Saraji project and for the first phase of the Navajo gasification project in New Mexico. The 1972-1974 financing program is comprised of a Eurobond issue, an extension of current Eurodollar revolving credits and a new Eurodollar revolving credit agreement. Utah International Finance Corp., a wholly owned finance subsidiary, issued $20 million in seven-year Notes and $20 million in 15-year Debentures to European investors in an underwritten public offering on March 23, 1972. Later in the year maturity schedules of all existing Eurodollar revolving credits involving $102 million in bank commitments to Utah were extended two years. Utah also entered into a new $50 million Eurodollar revolving credit agreement with a group of six United States banks effective June 1, 1972. This latter agreement was established with the understanding that all or some portion of the revolving credit might be replaced with fixed-term borrowings at an appropriate time. Several such replacements are now under active consideration, including the possibility of a loan from a syndicate of Japanese banks. With the new borrowing arrangements, Utah now has available from banks, institutions and the public sector a flexible program of medium- and long-term financing which will provide total borrowings of approximately $300 million by early 1975. These amounts are considered more than adequate to meet peak borrowing requirements for projects now under development.

Interest Income and Expense It has been Utah's practice to capitalize interest charges associated with projects in their development and construction stages. Several such projects involving capitalization of sizable interest charges in previous years commenced operations in 1972, at which time current interest costs became an expense item. As a result of this factor and greater average borrowings interest expenses for the year rose to $13,072,000 from $2,943,000 in 1971. As Utah continues to seek and develop new projects, charges for interest should remain at high levels.

Interest income in 1972 was $4,816,000, up from $2,779,000 in the preceding year. Loans to the Queensland government to finance the construction of railroad facilities required for Utah's coking coal mines are the most significant of the company's interest-bearing receivables. In 1972 these loan balances were increased to complete the railroad facilities for Peak Downs and for additional Blackwater railroad improvements; it was this activity that provided the added interest income.

Convertible Debentures Some $1.8 million of the 5¾% Subordinated Guaranteed Debentures of Utah International Finance Corp., due September 15, 1983, were converted during this year into common stock of Utah International Inc. As of October 31, 1972, only $4.5 million of these debentures of an original issue of $30 million were outstanding, and future conversions should result in issuance of the additional 121,000 common shares reserved for this purpose.

Shareholders At the close of the 1972 fiscal year, there were 14,376,244 shares of the company's common stock outstanding. The stock was held by 6300 shareholders residing in 50 states and the District of Columbia and 12 foreign countries.

Statement of Consolidated Income

Years ended October 31	1972	1971
	Amounts in thousands	
Income		
Gross revenues from operations (Note 7)	$209,770	$104,436
Costs and expenses	147,134	70,829
Gross profit from operations	$ 62,636	$ 33,607
Equity in net income (loss) of —		
Affiliates (Note 1)	14,018	17,823
Joint ventures and partnerships (Note 2)	(88)	570
Interest	4,816	2,779
Other, net	(113)	949
Gross profit and other income	$ 81,269	$ 55,728
Expenses		
General and administrative	$ 5,049	$ 4,520
Interest (Note 3)	13,072	2,943
Provision for employees' retirement plan	920	763
Minority interest in net income of subsidiaries	1,851	926
	$ 20,892	$ 9,152
Income before income taxes, discontinued operations and extraordinary item	$ 60,377	$ 46,576
Provision for income taxes (Note 8)	20,535	13,059
Income before discontinued operations and extraordinary item	$ 39,842	$ 33,517
Income from discontinued operations (net of income taxes) (Note 9)	—	629
Income before extraordinary item	$ 39,842	$ 34,146
Extraordinary item (net of income taxes) (Note 9)	—	1,355
Net income	$ 39,842	$ 35,501
Earnings per common share (Note 10)		
Income before discontinued operations and extraordinary item	$ 2.78	$ 2.36
Income from discontinued operations	—	.04
Extraordinary item	—	.10
Net income	$ 2.78	$ 2.50
Earnings per common share assuming full dilution (Note 10)		
Income before discontinued operations and extraordinary item	$ 2.76	$ 2.32
Income from discontinued operations	—	.04
Extraordinary item	—	.09
Net income	$ 2.76	$ 2.45

The accompanying accounting policies and notes are an integral part of this statement.

Consolidated Balance Sheet

Assets October 31	1972	1971
	Amounts in thousands	
Current assets		
Cash	$ 6,951	$ 8,139
Accounts and notes receivable	24,135	14,629
Current portion of long-term receivables	5,962	4,523
Inventories, at the lower of average cost or market	26,267	15,349
Prepaid expenses	3,101	3,184
Total current assets	$ 66,416	$ 45,824
Investments		
Affiliated companies (Note 1)	$100,830	$ 95,122
Joint ventures and partnerships (Note 2)	6,376	1,563
Land and real estate, at cost —		
Real estate held for development and sale	7,062	32,590
Land and improved real estate held for investment, less accumulated depreciation of $3,556 in 1972 and $3,331 in 1971	9,118	12,008
	$123,386	$141,283
Other assets, net of current portion		
Loans for construction of railroad and power facilities	$ 61,778	$ 41,420
Long-term receivables and other	39,494	29,862
	$101,272	$ 71,282
Equipment and facilities, at cost		
Mining lands, leases and development costs	$ 70,207	$ 54,859
Mining equipment and facilities	280,421	230,967
Mining facilities under development	21,033	32,835
Other	1,840	3,696
	$373,501	$322,357
Less — Accumulated depreciation, depletion and amortization	70,459	51,962
	$303,042	$270,395
	$594,116	$528,784

The accompanying accounting policies and notes are an integral part of this statement.

Liabilities and Stockholders' Equity October 31	1972	1971
	Amounts in thousands	
Current liabilities		
Bank loans and current portion of long-term liabilities	$ 11,618	$ 3,327
Accounts payable	15,550	18,404
Accrued liabilities	15,373	12,065
Accrued income taxes	2,156	4,935
Total current liabilities	$ 44,697	$ 38,731
Long-term liabilities, net of current portion (Notes 3 and 4)		
Unsecured	$216,569	$182,483
Assessment liens, purchase money obligations and other notes, secured only by related land and real estate	2,162	23,977
	$218,731	$206,460
Deferred credits		
Income taxes	$ 49,918	$ 33,343
Revenue and other	4,722	4,909
	$ 54,640	$ 38,252
Minority interest in subsidiaries	$ 5,516	$ 4,117
Contingent liabilities and commitments (Note 5)		
Stockholders' equity		
Preferred stock, without par value —		
Authorized — 1,000,000 shares; issued — none	$ —	$ —
Common stock, par value $2 per share (Notes 3 and 6) —		
Authorized — 40,000,000 shares		
Issued — 14,376,244 shares in 1972 and 14,321,748 shares in 1971	28,753	28,644
Paid-in capital	64,829	62,840
Retained earnings, including equity in undistributed earnings of affiliates (Notes 1 and 4)	176,950	149,743
Treasury stock, at cost — 231 shares in 1971	—	(3)
	$270,532	$241,224
	$594,116	$528,784

Statement of Consolidated Stockholders' Equity

Years ended October 31 Dollar amounts in thousands	Common Stock Shares (Notes 3 & 6)	Common Stock Amount	Paid-in Capital	Retained Earnings (Notes 1 & 4)
Balance, October 31, 1970	14,100,215	$28,200	$54,385	$124,912
Net income	—	—	—	35,501
Common stock issued upon conversion of debentures	235,525	471	8,025	—
Common stock issued to employees as restricted stock bonuses	7,827	16	390	—
Cash dividends of $.75 per share	—	—	—	(10,670)
Reduction in shares outstanding resulting from merger	(21,819)	(43)	40	—
Balance, October 31, 1971	14,321,748	$28,644	$62,840	$149,743
Net income	—	—	—	39,842
Common stock issued upon conversion of debentures	48,086	96	1,596	—
Common stock issued to employees as restricted stock bonuses	6,410	13	393	—
Cash dividends of $.88 per share	—	—	—	(12,635)
Balance, October 31, 1972	14,376,244	$28,753	$64,829	$176,950

The accompanying accounting policies and notes are an integral part of this statement.

Statement of Changes in Consolidated Financial Position

Years ended October 31	1972	1971
	Amounts in thousands	
Working capital was provided from		
Operations —		
Net income	$ 39,842	$ 35,501
Expenses (income) not affecting working capital —		
Depreciation, depletion and amortization	21,000	8,356
Provision for deferred income taxes	18,038	13,853
Minority interest in net income of subsidiaries	1,851	926
Undistributed equity in net income of affiliates, joint ventures and partnerships	(4,756)	(10,686)
Working capital provided from operations	$ 75,975	$ 47,950
Long-term borrowings	116,717	123,267
Transfer of investment in real estate to partnership (Note 2)	27,336	—
Sale of noncurrent assets	10,491	8,878
Reduction of loans for construction of railroad and power facilities	4,796	—
Common stock issued upon conversion of debentures	1,692	8,496
Other	—	251
Total funds provided	$237,007	$188,842
Working capital was used for		
Additional investment in —		
Equipment and facilities	$ 59,939	$145,670
Other assets	33,288	23,386
Affiliates, joint ventures and partnerships	5,949	—
Land and real estate	4,622	3,092
Transfer of assessment liens to partnership (Note 2)	23,134	—
Reduction of long-term liabilities	79,532	4,240
Cash dividends paid to stockholders	12,635	10,670
Conversion of debentures to common stock	1,692	8,496
Other	1,590	—
Total funds used	$222,381	$195,554
Net increase (decrease) in working capital	$ 14,626	$ (6,712)
Working capital increase (decrease) by component		
Cash	$ (1,188)	$ 1,067
Marketable securities	—	(11,543)
Receivables	10,945	9,942
Inventories and prepaid expenses	10,835	3,043
Bank loans and current portion of long-term liabilities	(8,291)	2,130
Accounts payable	2,854	(7,528)
Other current liabilities	(529)	(3,823)
	$ 14,626	$ (6,712)

The accompanying accounting policies and notes are an integral part of this statement.

Accounting Policies and Notes to Consolidated Financial Statements

Accounting Policies

Basis of Consolidation The consolidated financial statements include the accounts of Utah International Inc. and all subsidiary companies (Utah), after elimination of significant inter-company items and transactions. In addition, the statements include Utah's equity in the net income of affiliated companies in which Utah does not have a majority interest. The basis of recording the equity in these earnings is the affiliates' most recent audited financial statements and their subsequent unaudited interim reports.

Exploration and Development Costs Exploration costs are expensed until it is determined that the development of a mineral deposit is likely to be economically feasible. After this determination is made, all costs related to further development are capitalized. Capitalized development costs include financing costs of identifiable new borrowings associated with the development of new mining projects.

Currency Translation The accounts in foreign currencies have been translated to U.S. dollars at the exchange rates in effect at the respective year ends, except for (a) equipment and facilities accounts which have been translated at the exchange rates in effect at the dates of acquisition, and (b) stockholders' equity, income and expense accounts which have been translated at the exchange rates in effect when transactions occurred. Fluctuations in these exchange rates had no significant effect upon the accompanying consolidated financial statements.

Income Taxes Deferred income taxes are provided for timing differences in the reporting of certain income and expense items for financial statement and tax purposes. The primary causes of timing differences are development costs (deferred and amortized in the financial statements — deducted currently for tax purposes) and the earnings of affiliates (reflected in the financial statements by use of the equity method — reported for tax purposes when earnings distributions are received). Utah defers the investment credit and amortizes it over the average lives of the related assets. The investment credit had no significant effect upon the statement of consolidated income.

Depreciation and Amortization Methods Equipment and facilities costs are depreciated, depleted or amortized over the estimated useful lives of the related assets by use of the unit-of-production, straight-line or declining-balance methods.

Notes to Consolidated Financial Statements

1. Affiliated Companies Below is a summary of the unaudited financial statements of Marcona Corporation (Marcona) and Pima Mining Company (Pima), Utah's most signifcant affiliates, and of all affiliates combined as of October 31, 1972 (in thousands):

	Marcona Corporation (46% Owned)	Pima Mining Company (25% Owned)	Total Affiliates
Current assets	$ 67,573	$18,375	$ 97,782
Other assets	216,639	66,247	357,712
	$284,212	$84,622	$455,494
Current liabilities	$ 27,957	$ 9,151	$ 49,354
Long-term liabilities	68,199	14,897	133,659
Stockholders' equity	188,056	60,574	272,481
	$284,212	$84,622	$455,494
Revenue	$213,950	$63,991	$305,005
Net income	23,636	17,250	40,929
Utah's recorded share of —			
Stockholders' equity	$ 73,588*	$15,793	$100,830
Net income for year	9,621*	4,132	14,018

*After an exclusion for estimated taxes payable by Marcona upon distribution of earnings by certain of its subsidiaries for which no reserve has been provided by Marcona.

Approximately 45% of the stockholders' equity in Marcona is represented by net assets located in Peru. In 1972, about 20% of Marcona's net income was derived from its Peruvian mining operations.

The composition of Utah's investment in affiliated companies at October 31, 1972, is as follows (in thousands):

Equity in undistributed earnings of affiliates —	
Included in retained earnings	$ 78,383
Included in liability for deferred income taxes, payable upon distribution of earnings	7,239
	$ 85,622
Cost of investments	15,208
	$100,830

2. Joint Ventures and Partnerships In 1972, certain land and land improvement costs and related liabilities were transferred to Harbor Bay Isle Associates, a general partnership. The effect of this transaction upon the consolidated balance sheet was (in thousands):

Reduction of investment in real estate held for development and sale	$27,336
Reduction in related assessment liens	23,134
Increase in investment in joint ventures and partnerships	$ 4,202

Utah has a 50% interest in the profit of this partnership. According to the partnership agreement, Utah is entitled to receive a distribution of $5 million for its net contribution of land before any profit is distributed.

Below is a summary of the unaudited balance sheets of Harbor Bay Isle Associates and of all joint ventures and partnerships combined as of October 31, 1972 (in thousands):

	Harbor Bay Isle Associates (50% Owned)	Total Joint Ventures and Partnerships
Current assets	$ 134	$ 9,665
Other assets	28,920	30,214
	$29,054	$39,879
Current liabilities	$ 853	$ 6,371
Long-term liabilities	23,140	25,457
Net worth	5,061	8,051
	$29,054	$39,879

3. Long-term Liabilities Long-term liabilities at October 31, 1972 and 1971, consisted of (in thousands):

	1972	1971
Unsecured —		
Notes payable to banks, 7.0% (weighted average), due in varying installments to 1979 (a)	$117,106	$126,240
Notes payable to insurance company, 7.6%, due in varying installments from 1974 to 1988	55,000	50,000
8% Guaranteed Sinking Fund Debentures due March 15, 1987 (b)	20,000	—
7½% Guaranteed Notes due March 15, 1979 (c)	20,000	—
5¾% Subordinated Guaranteed Debentures due September 15, 1983 (d)	4,463	6,243
	$216,569	$182,483
Assessment liens, purchase money obligations and notes payable on land purchases, due in varying installments to 1987 (e)	2,162	23,977
	$218,731	$206,460

(a) Interest rates on most notes change with Eurodollar interbank rates or domestic prime rates and range from ¼% to 1% above such rates.

(b) Subject to redemption through a sinking fund to which payments must be made beginning in 1977. Debentures in addition to those redeemable through the sinking fund may be redeemed by payment of a premium beginning in 1979.

(c) May be redeemed at the principal amount beginning in 1977.

(d) Convertible into common stock of Utah at $37 per share, subject to adjustment under certain conditions. These debentures may be redeemed by payment of a premium beginning in 1973.

(e) Secured only by the related land and real estate — these obligations do not represent claims against other corporate assets.

Utah capitalizes financing costs of identifiable new borrowings associated with the development of new mining projects. These capitalized costs amounted to $1,983,000 in 1972 and $6,494,000 in 1971.

4. Restrictions on Retained Earnings Utah's long-term agreements with lending institutions contain restrictive provisions on certain payments unless Utah has adequate consolidated retained earnings (as defined). Such provisions include limitations on the payment of cash dividends and on the purchase or redemption of outstanding capital stock and convertible debentures. Retained earnings of $56,156,000 were free of such restrictions at October 31, 1972.

5. Contingent Liabilities and Commitments Utah has agreed to purchase a note on demand. The note is secured by a deed of trust on certain property owned by an affiliate in which Utah has a 50% interest. The balance of the note is approximately $3,500,000 at October 31, 1972.

Utah is in the process of developing or expanding certain mining projects. This program will require an investment of approximately $131 million in addition to the amount expended through October 31, 1972.

Commitments have been obtained by Utah which permit additional borrowings of approximately $104 million from lending institutions outside the United States and $10 million from lending institutions within the United States. In the opinion of management, proceeds from borrowings together with current working capital and cash generated internally are sufficient to fund mining projects now underway and to finance the other cash requirements of Utah's business.

The Supreme Court of Peru has affirmed a 1971 decision of an appellate court to the effect that a Marcona subsidiary's operations on a mining concession assigned from an instrumentality of the Government of Peru did not qualify for depletion deductions in computing income taxable in Peru. Based upon this decision, additional taxes and penalties have been assessed for the years 1957-1969 aggregating approximately $17.9 million after crediting approximately $2 million for tax overpayments in prior years. The subsidiary has arranged with the Peruvian Banco de la Nacion for payment of the additional assessment in monthly installments over a period of ten years.

Peruvian counsel have advised Marcona that under the provisions of the concession assignment agreement the Peruvian Government instrumentality is obligated to indemnify the Marcona subsidiary against liability for the additional assessment. Based upon this advice Marcona considers that no loss will be sustained as a result of the additional assessment. Accordingly, no liability for this item has been recorded in Marcona's financial statements.

Marcona and the Government of Peru are engaged in negotiations which contemplate that an agency of the Government will purchase a 25% interest in the subsidiary's Peruvian assets for cash at fair value. Following this transaction, if consummated, the Peruvian mining operations would be conducted by the parties as a special mining enterprise owned 75% by Marcona which would also manage the operation.

Certain lawsuits are pending in the U.S. District Court in Arizona, the U.S. Circuit Court of Appeals for the Ninth Circuit, and the State Courts of New Mexico against officials of the U.S. Government and the owners of the Four Corners Power Plant in New Mexico concerning the environmental effects of the plant, which is fueled by coal supplied from Utah's Navajo Mine. Utah considers that these lawsuits are without merit, but has not decided whether it should intervene to assure that its rights and interests are fully protected.

Certain individuals who have received royalties based upon the early activity at a Marcona subsidiary's mining operations in Peru have brought an action against both Utah and Marcona alleging breach of contract and fraud. The managements of Utah and Marcona consider this suit to be substantially without merit and believe that the result of this action will not have a material effect upon the consolidated financial statements.

6. Reserved Common Stock At October 31, 1972, 105,665 shares of common stock were reserved for future issuance to officers and key employees as restricted stock bonuses over an indefinite number of years and 120,785 shares were reserved for issuance upon conversion of the 5¾% Subordinated Guaranteed Debentures.

7. Revenue A substantial portion of Utah's gross revenue from operations results from sales of iron ore, coal and copper concentrate to Japanese and European companies under long-term sales agreements. In 1972, sales to Japanese and European companies amounted to about 58% and 11% of gross revenue, respectively. For Marcona, these sources accounted for about 72% and 8% of revenue.

Substantially all of the output of certain mining projects recently completed or under development is expected to be sold to both Japanese and European customers. Approximately 84% of Utah's mineral sales backlog is under long-term sales agreements which contain escalation clauses affording protection against future cost increases.

8. Income Taxes Utah's effective income tax rate is lower than the normal statutory rate for corporations principally because of the percentage depletion allowance on mining income and the 85% domestic dividend deduction applicable to the earnings of affiliates, principally Marcona and Pima. In recent years the effective rate has been increasing because parent company and subsidiary income has increased faster than Utah's share of affiliate income which is taxed at lower effective rates.

The provision for income taxes consists of (in thousands):

	1972	1971
Taxes currently payable	$ 2,497	$ 1,224
Deferred income taxes	18,038	13,853
Less taxes applicable to —		
Discontinued operations	—	(683)
Extraordinary item	—	(1,335)
	$20,535	$13,059

9. Discontinued Operations In 1971, Utah sold substantially all of its dredging assets. The gain from this transaction has been classified as an extraordinary item in the statement of consolidated income. Accordingly, all revenues and costs (including applicable income taxes) relating to dredging and other discontinued construction activities have been reclassified to "Income from Discontinued Operations" for 1971.

10. Earnings Per Share Earnings per common share were computed based upon the weighted average number of shares of common stock outstanding during each period (14,353,981 for 1972 and 14,213,529 for 1971).

Earnings per common share assuming full dilution were determined based upon the assumed conversion of the 5¾% Subordinated Guaranteed Debentures. For purposes of this computation, net income was increased by $126,000 in 1972 and $91,000 in 1971, the amounts of the related interest expense on the debentures, net of income taxes. The adjusted totals of shares outstanding used for this computation were 14,496,314 for 1972 and 14,509,604 for 1971.

Auditors' Report

To the Stockholders and Board of Directors of
Utah International Inc.:

We have examined the consolidated balance sheet of Utah International Inc. (a Delaware corporation) and subsidiaries as of October 31, 1972 and 1971, and the related statements of consolidated income, stockholders' equity and changes in financial position for each of the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain affiliated companies, the investments in which are recorded using the equity method of accounting (see Note 1 to the consolidated financial statements), but were furnished with reports of other public accountants thereon. Our opinion expressed herein, insofar as it relates to the amounts included for such affiliates, is based solely upon the reports of other public accountants.

In our opinion, based upon our examination and the reports of other public accountants, the accompanying consolidated financial statements present fairly the financial position of Utah International Inc. and subsidiaries as of October 31, 1972 and 1971, and the results of their operations and the changes in their financial position for each of the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

San Francisco, California,
December 4, 1972.

ARTHUR ANDERSEN & CO.

Ten Year Comparison (Consolidated)

Years ended October 31	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
	In thousands except per share amounts and number of stockholders.									
Gross revenue[1]	$209,770	104,436	88,776	67,353	57,693	40,882	27,438	30,636	31,069	31,802
Net income										
Before income taxes	$ 60,377	50,578[2]	44,959	34,283[2]	26,081	21,143	17,975	14,551	8,439	7,705
After income taxes	$ 39,842	35,501[2]	30,273	26,723[2]	19,944	16,543	13,175	11,016	7,292	7,085
Earnings per common share assuming full dilution[3,4]	$ 2.76	2.45	2.11	1.93	1.49	1.28	1.02	.85	.57	.55
Dividends paid										
Cash	$ 12,635	10,670	8,736	7,188	6,237	5,590	4,730	4,300	4,085	3,873
Common stock	—	—	—	200%	—	—	—	—	—	100%
Per share[3]	$ .88	.75	.65	.56	.48	.43	.37	.33	.32	.30
Common stock										
Shares outstanding	14,376	14,322	14,100	12,917	4,302	4,300	4,300	4,300	4,300	4,302
Number of stockholders	6,311	6,496	6,095	5,501	4,468	4,429	4,265	3,796	3,675	3,343
Total assets	$594,116	528,784	360,676	280,601	257,798	181,964	162,040	138,696	123,693	124,192
Working capital	$ 21,719	7,093	13,805	42,204	55,033	9,820	10,696	6,622	11,970	12,691
Long-term liabilities	$218,731	206,460	96,149	116,481	114,611	52,880	45,282	32,125	32,941	36,984
Stockholders' equity										
Net worth	$270,532	241,224	207,495	129,555	109,606	95,755	84,802	76,356	69,640	66,480
Net worth per share[3]	$ 18.82	16.84	14.72	10.03	8.49	7.42	6.57	5.92	5.40	5.15

	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
1 Gross revenue from discontinued operations not included	$ —	2,629	2,184	36,487	60,575	72,419	71,015	58,681	28,821	45,954

2 Net income includes $2,689,000 in 1971 and $2,663,000 in 1969 before income taxes and $1,355,000 in 1971 and $1,844,000 in 1969 after income taxes, attributable to gains on sales recorded as extraordinary items.

3 Per share amounts for the applicable years have been calculated after giving effect to the stock dividends of 200% in 1969 and 100% in 1963.

4 Earnings per common share assuming full dilution reflect the assumed conversion of debentures which were first issued in 1968. Earnings per common share on weighted average shares outstanding were $2.78, $2.50, $2.27, $2.07 and $1.55 for the years of 1972, 1971, 1970, 1969 and 1968, respectively.

Directors and Officers

Board of Directors

Ernest C. Arbuckle
Fred J. Borch
Alf E. Brandin
Val A. Browning
Thomas D. Dee II
George S. Eccles
Marriner S. Eccles
William R. Kimball, Jr.
Edmund W. Littlefield
Arjay Miller
Shepard Mitchell
Albert L. Reeves
Paul L. Wattis, Jr.
Alexander M. Wilson

Executive Committee

Marriner S. Eccles, *Chairman*
Edmund W. Littlefield
Alexander M. Wilson
Alf E. Brandin
Albert L. Reeves

Officers

Marriner S. Eccles, *Honorary Chairman of the Board*
Edmund W. Littlefield, *Chairman of the Board and Chief Executive Officer*
Alexander M. Wilson, *President*
Albert L. Reeves, *Senior Vice President and Secretary*
Alf E. Brandin, *Senior Vice President*
Edwin C. DeMoss, *Senior Vice President*
Charles E. McGraw, *Senior Vice President*
Joseph K. Allen, *Vice President*
John S. Anderson, *Vice President*
Weston Bourret, *Vice President*
James T. Curry, *Vice President and Treasurer*
W. Drew Leonard, *Vice President and Controller*
Charles K. McArthur, *Vice President*
Hollis G. Peacock, *Vice President*
Charles T. Travers, *Vice President*
Keith G. Wallace, *Vice President*

Transfer Agents

Bankers Trust Company, New York, New York
Crocker National Bank, San Francisco, California
First Security Bank of Utah, N.A., Salt Lake City, Utah

Head Office

550 California Street, San Francisco, California 94104

Annual Meeting

Friday, February 9, 1973, 11:00 A.M.
The Penthouse Board Room, Wells Fargo Bank
420 Montgomery Street, San Francisco, California